

December 24, 2009

Dr. Lawrence Goulder, Chairman
AB 32 Economic and Allocation Advisory Committee
California Air Resources Board
1001 I Street
Sacramento CA 95815

Chairman Goulder and EAAC Committee Members:

Concerning your December 14th “Draft Recommendations on Allocating Allowances Under California’s Cap-and-Trade Program”:

The Economic and Allocation Advisory Committee (EAAC) has worked quickly to reach these draft recommendations on instituting a fair and economically efficient AB-32 Cap-and-Trade structure. However at this point, SMUD believes that the EAAC’s recommendations reflect an attempt to describe a uniform and widespread Cap-and-Trade structure without full consideration of the specific context of the electricity sector in California.

We believe that there are unique electricity-sector circumstances that provide compelling reasons to recommend that electric sector allowance value be returned to electricity retail consumers through Local Distribution Companies (LDCs). This would be in keeping with the decision reached by the years-long California Energy Commission/California Public Utility Commission processes. The prudence of that allocation recommendation rests, we submit, upon four points:

- In California, a significant and deliberate decarbonization of electricity has already begun over the last decade and more, with efficiency programs, renewable procurement, and prohibition of high carbon generation laws and policies. Even greater investments in energy efficiency and increased mandates for renewable procurement form the key 2020 GhG reduction measures for the electricity sector. This context makes the electricity sector unique in that expected reductions from complementary policies such as the Renewable Portfolio Standard (RPS) and energy efficiency investments will exceed the electric sector’s prorata share of 2020 emissions reductions. When the cap-and-trade structure is layered on top of the preexisting complementary policies, allowance allocation policy should acknowledge the stack of costs to electricity consumers for all of these programs.
- It should be recognized that the mandated electricity sector complementary measures come with significant costs that are already reflected in retail rates. The costs for the 20% RPS, distributed solar generation incentives, and California’s energy efficiency programs are already being reflected in electricity customers’ rates and bills. So will the additional costs of a 33% RPS and even greater efficiency investments. While efficiency investments are

considered low cost from a GhG perspective, they also lead to higher rates as fixed costs are spread across fewer kWh. The price signal that arises from these significant complementary policies in the electricity sector is already high, and reduces the need for an additional price signal from allowance policy under cap-and-trade

- In the electricity sector, shifting away from fossil electricity sources is the primary necessity for reducing emissions on the scale required by science. Because local distribution companies in California make the vast majority of decisions on sources of electricity to provide their customers, the place where a market-delivered price signal is most effective is at the wholesale level. Beyond the voluntary renewable energy programs in California, electricity consumers have little direct choice on the source of their electricity.
- Another unique aspect of the electricity sector is that rates and other policies affecting electricity bills are set through open, transparent, well represented and extended public processes. Inefficient additional costs to electricity consumers in the form of increased electricity bills will surely offer politically usable platforms for criticism of the cap-and-trade program. Using returned allowance value revenue to partially fund the ARB Scoping Plan utility complementary programs at the LDC level is a good use of allowance value. It also mitigates the potential for public criticism of high retail electricity rates and the ensuing political ramifications.

For these reasons and more that have been revealed in months and years of California electricity sector Ghg policy debate, we urge the EAAC to consider the unique context of the electricity sector in California, and provide allocation policy recommendations similar to the conclusions of the CEC/CPUC decision provided last year to the ARB.

A handwritten signature in black ink, appearing to read 'H. BEEBE', with a stylized, cursive flourish.

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